

Message Text

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C O N F I D E N T I A L SECTION 01 OF 07 GENEVA 07217

USEEC USOECD

STATE FOR UNDERSECRETARY COOPER AND ASSISTANT SECRETARIES
KATZ AND MAYNES FROM AMBASSADOR VANDEN HEUVEL

NSC FOR BRZEZINSKI, OWENS AND ERB

E.O. 11652: GDS
TAGS: UNCTAD, EAID
SUBJECT: COMMON FUND

REF: GENEVA 6766

SUMMARY: IN REFTTEL, THE MISSION SOUGHT TO DRAW ATTENTION TO
THE GROWING POLITICAL ISOLATION OF THE UNITED STATES ON THE
QUESTION OF THE COMMON FUND. IN THIS MESSAGE, WE WOULD LIKE
TO DELINEATE HOW THE GENEVA MISSION SEES THE OPTIONS AVAILA-
BLE TO THE UNITED STATES IN THE LIGHT OF SOME OF ITS LARGER
STRATEGIC INTERESTS.

THE FIRST OF THESE OPTIONS INVOLVES A CONCLUSION THAT THE
IDEA OF A COMMON FUND HAS BEEN OVERTAKEN BY EVENTS, THAT
MEMBERS OF THE G-77 DO NOT ATTACH THE SAME MEASURE OF
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IMPORTANCE TO IT INDIVIDUALLY AS THEY DO COLLECTIVELY, THAT
IT WOULD BE BETTER TO DEFINE A PRECISE, LIMITED POSITION
ESSENTIALLY REJECTING THE SECOND WINDOW AND, IF NECESSARY,
LET THE NEGOTIATIONS FAIL. THE SECOND OPTION WOULD BE TO
AVOID FAILURE IN THE NEGOTIATIONS, BUT SEEK THE MINIMUM
OUTCOME BY CONTINUING TO ACT AS ANCHORMAN, CONCEDED ONLY
WHEN AND WHERE NECESSARY, BUT ESSENTIALLY LETTING OTHERS

DEFINE THE OUTCOME IN TERMS OF THE MINIMUM CONCESSION THAT CAN BE EXTRACTED FROM US WHICH WOULD STILL PERMIT THE NEGOTIATIONS TO BE CALLED "SUCCESSFUL". (THIS, COULD BE DESCRIBED AS OUR PRESENT POSITION). THE THIRD OPTION WOULD BE TO SEIZE THE INITIATIVE, NOT CONCEDING EVERYTHING THAT THE G-77 AND UNCTAD SECRETARIAT SEEK, BUT, AT THE SAME TIME, NOT ALLOWING OUR GROUP B PARTNERS TO OUTFLANK US BY DEFINING THE "MINIMAL" CONCESSIONS WHICH THEY EXPECT US TO MAKE ULTIMATELY. UNDER THIS OPTION THE US WOULD DETERMINE WHAT BOUNDS FOR THE CF COULD BE AGREEABLE TO OUR ALLIES, WHAT MORE WE CAN APPROPRIATELY OFFER TO CAUSE A G-77 COM-PROMISE RESPONSE, AND THEN TAKE THE POLITICAL STEPS THAT WILL CREDIT THE U.S. FOR BREAKING THROUGH THE OBSTACLES AND FOR INITIATING THE SUCCESSFUL RESULT.

FROM THE MISSION'S VANTAGE POINT, THESE OPTIONS CANNOT BE CONSIDERED IN ISOLATION. ULTIMATELY, OUR CHOICE WILL BE INFLUENCED BY THE FLEXIBILITY OF THE G-77 POSITION. IT OUGHT ALSO TO BE DETERMINED BY (1) A CALCULATION CONCERNING THE EFFECTS OF SUCCESS OR FAILURE ON G-77 COHESIVENESS, BLOC-POLITICS, VOTING PATTERNS WITHIN THE UN SYSTEM AND ITS IMPORTANCE TO US; (2) THE IMAGE WE WISH TO CONVEY TO THE DEVELOPING WORLD AND A JUDGMENT CONCERNING WHETHER SUCCESS OR FAILURE WILL AFFECT THAT IMAGE SIGNIFICANTLY; (THIS JUDGMENT SHOULD INCLUDE AN EVALUATION OF OUR OBJECTIVES FOR UNCTAD V). (3) WHETHER, IN THE LIGHT OF THIS IMAGE AND A

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JUDGMENT WITH RESPECT TO OTHER FACTORS THAT WILL AFFECT IT, INCLUDING THE ANTICIPATED LEVEL OF FUTURE AID PROGRAMS AND THE BENEFIT TO THE DEVELOPING WORLD OF THE MTN, THE POLITICAL ADVANTAGE OF MAKING CONCESSIONS IS WORTH THE ECONOMIC COST; AND (4) WHETHER WE COULD USE THE NEGOTIATIONS TO LEVERAGE THE EASTERN BLOC INTO A MORE COOPERATIVE STANCE VIS-A-VIS THE DEVELOPING WORLD.

FINALLY, THE MISSION BELIEVES THAT OUR DECISION WOULD BE IMPROVED AND OUR TACTICAL POSITION GREATLY ENHANCED IF WE WERE TO LAUNCH A SURVEY OF G-77 CAPITALS AIMED AT ELICITING IN DETAIL WHETHER, IN FACT, THE COMMON FUND IS SIGNIFICANT TO EACH COUNTRY INDIVIDUALLY AND IN WHAT WAYS, OR WHETHER PRESSURE FOR THE FUND DOES NOT ARISE FROM G-77 INTERNAL BLOC DYNAMICS THAT HAVE LITTLE TO DO WITH INDIVIDUAL NATIONAL INTERESTS. THE FINDINGS OF SUCH A SURVEY, WE THINK, SHOULD WEIGH HEAVILY IN THE POSITION WE TAKE. IT WOULD HAVE THE GREAT ADVANTAGE THAT, IF WE CHOOSE OPTION 1, WE CAN THEN JUSTIFY OUR DECISION ON THE BASIS OF WHAT WE JUDGE TO BE THE INDIVIDUAL NEEDS OF COUNTRIES WHICH WE ARE TRYING TO MEET THROUGH BILATERAL AND EXISTING MULTILATERAL PROGRAMS; IF WE CHOOSE OPTION 3, WE CAN USE OUR DEMONSTRATION OF INTEREST TO

REGAIN THE INITIATIVE AND SOME OF THE POLITICAL CREDIT FROM THOSE OF OUR GROUP B PARTNERS WHO HAVE OUTFLANKED US ON THIS ISSUE. THE OBJECT OF THIS EXERCISE WOULD BE TO STOP THE APPARENT POLICY DRIFT IMPLICIT IN OPTION 2. THUS, WHATEVER WASHINGTON'S FINAL JUDGEMENT, THE MISSION BELIEVES THAT A DECISION SHOULD BE MADE ON WHAT OUR POLICY FINALLY WILL BE BY MID-JUNE. FROM THE VANTAGE POINT OF GENEVA, WHERE THE G-77 AS A GROUP WEIGHS HEAVILY IN OUR CONCERNS, WE WOULD CHOOSE OPTION 3, SUBJECT TO THE OUTCOME OF THE SURVEY.

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C O N F I D E N T I A L SECTION 02 OF 07 GENEVA 07217

USEEC USOECD

STATE FOR UNDERSECY COOPER AND ASST SECY KATZ AND MAYNES FROM
AMB VANDEN HEUVEL

NSC FOR BRZEZINSKI, OWENS AND ERB

I WILL BE IN WASHINGTON MAY 15-17 AND WOULD BE PLEASED TO DISCUSS OUR VIEWS WITH INTERESTED PARTIES. I CAN BE REACHED THROUGH THE OFFICE OF ASSISTANT SECRETARY MAYNES. END SUMMARY.

1. OPTION 1 - HOLD FIRM TO THE FORMAL GROUP B POSITION AS PRESENTED LAST NOVEMBER, REJECT ANY IMPORTANT ROLE FOR THE SECOND WINDOW (INCLUDING VOLUNTARY CONTRIBUTIONS) PRESENT THE POSITION AS AFFIRMATIVELY AS POSSIBLE, AND IF NECESSARY, LET THE NEGOTIATIONS FAIL.

2. MUCH OF THE IMPETUS FOR A COMMON FUND CAME FROM THE OPEC MODEL WHICH SUCCEEDED IN EFFECTING MASSIVE RESOURCE TRANS-

FERS TO MEMBERS OF THE CARTEL. THERE WAS A HALCYON MOMENT WHEN THIRD WORLD COMMODITY PRODUCERS THOUGHT THEY SAW THE POSSIBILITY --AIDED, THEY HOPED, BY PRESSURE FROM OPEC --TO
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CONSTRUCT SIMILAR CARTELS FOR OTHER COMMODITIES. THE COMMON FUND WAS TO BE AN INSTRUMENT OF THEIR CONTROL, AND THE NEW INTERNATIONAL ECONOMIC ORDER WAS TO BE ITS RATIONALIZATION. IN THE LIGHT OF EXPERIENCE AND THE ECONOMIC ANALYSES THAT HAVE TAKEN PLACE SINCE THEN, HOWEVER, THIS INITIAL ENTHUSIASM HAS WANED CONSIDERABLY. FIRST, THERE WAS THE FAILURE DURING THE CIEC TO USE OPEC SUCCESSFULLY AS A LEVER ON THE WEST. SECOND, BY HOLDING TO A CASE BY CASE APPROACH ON COMMODITY QUESTIONS WE HAVE EXPOSED THE REAL DIFFICULTIES THAT ARE INVOLVED. INDEED, WE ARE NOW AT THE POINT WHERE ONLY THE CONCEPT OF A SECOND WINDOW -- A FINANCING SOURCE FOR SO-CALLED "OTHER MEASURES" -- HAS GIVEN THE CF THE POLITICAL ENERGY TO SURVIVE. IN CONSIDERING OPTION ONE, THE FOLLOWING ARGUMENTS SHOULD BE REVIEWED:

3. FIRST, THERE ARE THE ECONOMIC ARGUMENTS THAT WE ALL KNOW. MOST US PARTICIPANTS BELIEVE THAT WE WOULD NOT BE ENGAGED IN THIS NEGOTIATION EXCEPT FOR G-77 PRESSURE. TO THE EXTENT THAT WE POSITIVELY FAVOR COMMODITY PRICE STABILIZATION, THE ADVANTAGES TO US OF THE COMMON FUND'S FIRST WINDOW ARE ESSENTIALLY AVAILABLE THROUGH THE INDIVIDUAL ICA'S. ALTHOUGH THERE ARE SOME THEORETICAL FINANCIAL ADVANTAGES POSSIBLE FOR PARTICIPATING COUNTRIES THROUGH POOLING BUFFER STOCKS AND CO-MINGLING OF CONTRIBUTIONS, THIS ADVANTAGE IS, AT BEST, MARGINAL. MOREOVER, THERE WILL BE RESISTANCE FROM THE STRONG ICA'S TO DILUTING THEIR STRENGTH BY USING THEIR RESOURCES TO SUPPORT THE WEAKER ONES. FINALLY, SINCE IN ANY EVENT THE UNITED STATES CAN, IF IT CHOOSES, BE A PRODUCER/-CONSUMER MEMBER OF EVERY ICA, THERE IS NO SIGNIFICANTLY MEANINGFUL FINANCIAL ADVANTAGE TO US OF A COMMON FUND. ON ECONOMIC GROUNDS IT MAY MAKE NO SENSE TO GO ANY FURTHER THAN WE HAVE ALREADY GONE.

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4. SECOND, THERE SHOULD BE GENUINE CONCERN FOR THE G-77'S ULTIMATE AIMS AND HOW THEY REALLY SEE THE ROLE OF BUFFER STOCKS. THE CASE BY CASE APPROACH HAS BEEN LARGELY AN EFFORT TO EDUCATE THEM TO OUR VIEWS THAT THESE WERE NOT TO BE RESOURCE TRANSFER MECHANISMS. YET, DURING VICE PRESIDENT

MONDALE'S VISIT TO INDONESIA, OBJECTION WAS MADE TO HIM ABOUT THE U.S. USE OF ITS BUFFER STOCKS IN RUBBER AND TIN TO "INFLUENCE INTERNATIONAL PRICES." THE INDONESIANS MEANT TO TELL THE VICE PRESIDENT THAT IT IS NOT ACCEPTABLE WHEN SUCH RELEASES AFFECT INTERNATIONAL MARKET PRICES ON THE HIGH SIDE AND THUS HARM PRODUCER COUNTRIES. THE CONCLUSION ONE MIGHT DRAW FROM THIS IS THAT THIRD WORLD PRODUCERS CANNOT, IN TERMS OF THEIR OWN INTERESTS, HELP BUT LOOK AT BUFFER STOCKS AS A MEANS OF PROVIDING FLOORS, BUT NOT CEILINGS, FOR COMMODITY PRICES.

5. THIRD, WE ARE NOT AT ALL SURE WHETHER A SIGNIFICANT NUMBER OF G-77 COUNTRIES SEE ECONOMIC BENEFITS IN THE COMMON FUND OF SUBSTANTIAL IMPORTANCE TO THEMSELVES, OR WHETHER THE PRESSURE DOES NOT REALLY ARISE FROM G-77 GROUP DYNAMICS, OR THE INSPIRATION OF SIGNIFICANT THIRD WORLD GENEVA-BASED DIPLOMATS. IN FACT, IS THIS NOT WHY THE CONCEPT ITSELF HAS TURNED OUT TO BE SUCH A PATCHWORK? COREA HIMSELF CANDIDLY ADMITS THAT THE SECOND WINDOW WAS NOT PART OF HIS ORIGINAL CONCEPT BUT HAD TO BE DEvised IN ORDER TO HOLD THE G-77 TOGETHER. SOME OF THE LATINS TELL US PRIVATELY THAT THEY HAVE NO INTEREST IN THE COMMON FUND, BUT THAT THEY SUPPORT IT IN ORDER TO MAINTAIN G-77 COHESIVENESS AS A POLITICAL FORCE.

6. FOURTH, MANY CONCESSIONS REGARDING THE SECOND WINDOW HAVE BEEN MADE BY THE G-77 AND MAY STILL BE MADE TO GROUP B TO PREVENT OUTRIGHT REJECTION. BUT THE REALITY IS THAT THE TRUE INTERESTS OF THE G-77 IN THE SECOND WINDOW ARE ITS POSSIBILITIES AS AN IMPORTANT FINANCING MECHANISM FOR DEVELOPMENTAL PURPOSES, SUBJECT TO MUCH GREATER G-77 MANAGE-
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MENT CONTROL THAN ANY EXISTING INTERNATIONAL FINANCIAL

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INSTITUTION. U.S. SPOKESMEN, IN AN EFFORT TO ACCOMMODATE AN ARGUABLE NEED TO FINANCE CERTAIN "OTHER MEASURES," HAVE INDICATED A WILLINGNESS TO FINANCE SUCH PROJECTS WITHIN THE ICAS, AS THEY ARE DEFINED BY THE ICAS. THERE IS PLAUSIBILITY IN THE POINT MADE BY THE G-77 SPOKESMEN THAT THERE ARE COMMODITIES WHERE ICAS HAVE NOT BEEN NEGOTIATED AND WHERE LESS PRECISE PRODUCER/CONSUMER ARRANGEMENTS SHOULD BE RECOGNIZED WHICH HAVE NEEDS THAT SHOULD BE FINANCED. VOLUNTARY CONTRIBUTIONS ARE SUGGESTED TO FINANCE SUCH PROJECTS SO AS TO AVOID GROUP B'S OPPOSITION TO ASSESSED CONTRIBUTIONS. BUT DO WE BELIEVE THE G-77 WOULD CAUSE THE COMMON FUND TO BE A PRIORITY POLITICAL OBJECTIVE IF THIS LIMITED DEFINITION OF A SECOND WINDOW WERE REALLY ITS BOUNDARIES? THE POSSIBILITY IS THAT, IF THE G-77, AS A MATTER OF TACTICS, DECIDES TO ACCEPT THE LIMITATIONS OF A SECOND WINDOW AS DEFINED IN 1978 BY GROUP B, IT WILL DO SO AS A NEGOTIATING TACTIC SO AS TO ACHIEVE THE DEVELOPED WORLD'S COMMITMENT TO THE SECOND WINDOW IN PRINCIPLE, BUT WITH THE LIKELIHOOD THAT, AS SOON AS UNTAD V ENDS, THE PRESSURE WILL BEGIN FIRST FOR SIGNIFICANT "VOLUNTARY CONTRIBUTIONS" AND THEN FOR ACCEPTANCE OF THE SECOND WINDOW AS A FINANCING AGENT FOR MAJOR DEVELOPMENTAL ASSISTANCE.

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7. FIFTH, FORESEEING THE ABOVE COURSE AS A REASONABLE POSSIBILITY, IF THE U.S. NOW AGREES TO THE LIMITED COMMON FUND CONCEPT, IT MAY BE AGREEING TO A DECADE OF NEGOTIATIONS AND PRESSURES BY THE G-77 TO ACHIEVE THEIR LARGER POLITICAL OBJECTIVE. THE U.S. WILL BEAR THE BRUNT OF THESE PRESSURES AND WILL ULTIMATELY HAVE TO ACCEPT THE G-77 CONCEPT OR THE POLITICAL RESPONSIBILITY FOR THE FAILURE OF THE COMMON FUND TO REALIZE ITS POTENTIAL AS A SIGNIFICANT INSTRUMENT OF THIRD WORLD ECONOMIC AND POLITICAL POWER. IN OTHER WORDS, TO ACCEPT THE COMMON FUND AS THE G-77 APPEAR TO BE WILLING TO DEFINE IT, AND AS MANY OF OUR GROUP B ALLIES MAY BE PREPARED TO ACCEPT IT, IS TO INVITE A LENGTHY STRUGGLE TO CREATE AN INSTITUTION NOT PRESENTLY COMPATIBLE WITH OUR POLICY OBJECTIVES--ONE WHERE THE FUTURE POLITICAL PRICE OF DISAGREEMENT AND REJECTION MAY BE MUCH HIGHER THAN THE PRICE OF A DETERMINED POSITION NOW. IT WILL ALSO CAUSE THE

POLITICAL ATTENTION AND ENERGIES OF THE PARTICIPANTS (BOTH THE G-77 AND GROUP B) TO BE DIVERTED FROM PROGRAMS AND PROJECTS MUCH MORE SIGNIFICANT IN TERMS OF REAL THIRD WORLD NEEDS. FINALLY, TO ACCEPT A PROPOSITION (THE CF) WHOSE ORIGINAL INTENTIONS HAVE BEEN DISTORTED BY THE DEMANDS OF G-77 POLITICAL COHESIVENESS AND THE NEED TO ACCOMMODATE DEMANDS FOR DEVELOPMENTAL FINANCING FROM COUNTRIES WHICH SEE LITTLE TO BE GAINED IN THE ORIGINAL PURPOSE OF THE CF, NAMELY, PRICE STABILIZATION, IS TO PERMIT OURSELVES TO BE WHIPSAWED INTO ACCEPTING A MECHANISM THAT MAKES NO ECONOMIC SENSE IN TERMS OF REAL THIRD WORLD NEEDS.

8. FINALLY, THE G-77 COUNTRIES, AS WELL AS THE INDUSTRIAL NATIONS, ARE GOING TO BE UNDER CONSIDERABLE PRESSURE TO CAUSE UNCTAD V TO APPEAR SUCCESSFUL. A FIRM U.S. POSITION, THEREFORE, MAY WELL CAUSE A MORE MEANINGFUL DEBATE BOTH ABOUT THE CF AND THE REAL PRIORITY NEEDS OF THE THIRXHORLD. CONFIDENTIAL

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OUR FIRST OPTION THEN IS TO STAND BY A PRESENT DEFINITION OF A CF THAT IS COMPATIBLE WITH THE GROUP B POSITION PRESENTED LAST NOVEMBER, SEEK TO HOLD GROUP B TO THIS POSITION, AND INVITE A RESUMPTION OF NEGOTIATIONS WITH THE UNDERSTOOD OBJECTIVE OF MAKING THE FIRMNESS AND FINALITY OF OUR POSITION UNDERSTOOD.

9. OPTION 2 - CONTINUE OUR PRESENT POLICY, SEEK THE MINIMUM OUTCOME NECESSARY TO AVOID BEING BLAMED FOR A FAILURE; AND FINALLY AGREE TO THE EC-9 POSITION.

10. THE U.S. IS NOW PERCEIVED AS A RELUCTANT PARTICIPANT IN THE CF DISCUSSIONS. WE ARE SEEN AS THE ANCHOR ON GROUP B, HOLDING BACK MANY OF ITS MEMBERS WHOM THE G-77 BELIEVE WOULD BE MORE FORTHCOMING IF U.S. POLITICAL PRESSURES WERE LESS INTENSE. IT IS WIDELY BELIEVED THAT THE KEY U.S. DECISION-MAKERS DO NOT REGARD THE CONCEPT OF THE CF AS ECONOMICALLY SOUND BUT THAT, GRUDGINGLY, THEY HAVE RATIONALIZED AN ECONOMIC PLAUSIBILITY IN RECOGNITION OF POLITICAL REALITIES. G-77 LEADERS BELIEVE THAT THESE U.S. POLITICAL REALITIES INCLUDE (1) PRESSURE FROM THE WHITE HOUSE TO GIVE SUBSTANCE TO THE NORTH/SOUTH DIALOGUE; (2) PRESSURE FROM THOSE WHO BELIEVE IT IMPORTANT TO RESPOND AFFIRMATIVELY TO THE POSSIBILITIES OF UNCTAD AS A FOCUS OF DEVELOPED/DEVELOPING COUNTRIES' DISCUSSIONS; BALANCED BY (3) AN EFFORT BY THOSE WITHIN THE U.S. GOVERNMENT WHO OPPOSE NEW ECONOMIC RELATIONSHIPS WITH THE DEVELOPING WORLD BY USING CONGRESSIONAL RESISTANCE AS A SHIELD FOR LACK OF EXECUTIVE BRANCH INITIATIVE.

11. KEY G-77 REPRESENTATIVES BELIEVE THEY HAVE ALREADY MADE

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USEEC USOECD

STATE FOR UNDERSECY COOPER AND ASST SECY KATZ AND MAYNES FROM AMB
VANDEN HEUVEL; NSC FOR BRZEZINSKI, OWENS AND ERB

MAJOR CONCESSIONS TO THE U.S. ON THE C.F. THEY TRULY FIND
IT DIFFICULT TO UNDERSTAND WHAT THEY DESCRIBE AS THE U.S.
UNWILLINGNESS TO RECOGNIZE ITS OWN LONG-RANGE ECONOMIC
INTERESTS WITH THE DEVELOPING WORLD WHICH CAN BE PARAPHRASED
AS "A GOOD CUSTOMER AND YOUR BEST POTENTIAL CUSTOMER".
BELIEVING THAT RESOLUTION OF CONFLICTING POLICY ATTITUDES IN
THE U.S. GOVERNMENT DEPENDS ON UNRELENTING PRESSURE, THE G-
77 STRATEGY IS TO ISOLATE THE U.S. WITHIN GROUP B, EXTRAC-
TING CONCESSIONS BY PRESSURING U.S. ALLIES/GROUP B MEMBERS
INDIVIDUALLY, BELIEVING THAT ULTIMATELY THE U.S. HAS NO
ALTERNATIVE BUT TO ACCEPT THESE CONCESSIONS.

12. AS THE PLANNING FOR UNCTAD V PROGRESSES. G-77 STRATEG-
ISTS BELIEVE THAT GROUP B WILL SEEK ACCOMMODATIONS SO THAT
THE CF BECOMES THE SUCCESSFUL SYMBOL OF THE MANILA MEETING,
A PROCESS THEY BELIEVE HAS ALREADY BEGUN IN THE OUTCOME OF
THE COMMONWEALTH TALKS. AT THE SAME TIME, THEY HAVE FOL-
LOWED PRESIDENT CARTER'S CAREFUL REFERENCES TO THE CF AND
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SEE THEM AS EXPRESSIONS OF THE CONFLICT WITHIN THE U.S. GOVERNMENT -- COMMITMENT TO THE CONCEPT AS A POLITICAL CONCESSION BUT RESISTANCE TO THE SUBSTANCE OF THE G-77 PROPOSAL, ESPECIALLY AS IT RELATES TO THE SECOND WINDOW AND "OTHER MEASURES".

13. A CONTINUATION OF THIS DRIFT WILL RESULT IN A STRENGTHENING OF PRESENT ATTITUDES. WITHOUT SOME SIGNIFICANT ACTION OR SIGNAL FROM US, G-77 ADHERENTS WILL CONTINUE TO BELIEVE THE U.S. DOES NOT WANT THE CF, AND THAT IT HAS RATIONALIZED THE USEFULNESS OF THE CF IN ORDER TO APPEAR AFFIRMATIVE IN THE PRESENT DISCUSSIONS. THEY ALSO BELIEVE THAT THE U.S. WILL FINALLY ACCEPT WHATEVER CF IS FINALLY ACCEPTABLE TO LEADING GROUP B COUNTRIES BECAUSE IT CANNOT AFFORD TO BE ISOLATED FROM BOTH ITS ALLIES AND THE G-77. IN FACT, AS REPORTED REFTTEL, MANY OF OUR TRADITIONAL ALLIES REGRET OUR HARD LINE, DISAGREE WITH IT, AND ARE NOW PREPARED TO USE IT TO THEIR ADVANTAGE BY WORKING OUT A DEFINITION OF A CF WITH THE G-77 WHICH THEY BELIEVE THE U.S. WILL HAVE TO ACCEPT IN THE MONTHS AHEAD.

14. OPTION 3 - TAKE THE INITIATIVE, DEFINE A CF THAT THE U.S. THINKS WILL WORK, AND LEAD THE EFFORT TO HAVE IT ACCEPTED.

15. THIS OPTION INVOLVES MAKING A JUDGMENT WITH RESPECT TO WHERE THE NEGOTIATIONS WILL PROBABLY COME OUT (ASSUMING OPTION 1 IS UNACCEPTABLE) AND MOVING WITHOUT DELAY TO MAKE THAT PROJECTED OUTCOME THE U.S. POSITION. FOR EXAMPLE, IF A SECOND WINDOW, THROUGH WHICH VOLUNTARY CONTRIBUTIONS CAN BE CHanneLED, IS GOING TO BE FINALLY ACCEPTABLE TO OUR GROUP B PARTNERS, IS IT POLITICALLY TENABLE FOR THE U.S. TO REMAIN SO INFLEXIBLE THAT THE NEGOTIATIONS FAIL AND WE STAND ISOLATED? IF, IN OUR ANALYSIS, THIS OUTCOME IS UNACCEPTABLE, CONFIDENTIAL

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TABLE, WOULD IT NOT BE BETTER FOR US TO JOIN IN THE PROCESS OF SHAPING THE SECOND WINDOW AND, BY DOING SO, PROTECT OUR INTERESTS? THIS WOULD BE TO MAKE SURE (1) THAT IT IS LIMITED IN SCALE; (2) THAT MONIES CHanneLED THROUGH IT ARE CONFINED TO A LIMITED RANGE OF OTHER MEASURES ACCEPTABLE TO US; (3) THAT THERE IS NO DUPLICATION OF WORK NOW PERFORMED BY EXISTING IFIS; (4) THAT ITS ACTIVITIES ARE EXPRESSLY LINKED TO RECOGNIZED ICAS; AND (5) THAT IT IS UNCONNECTED WITH THE FIRST WINDOW. BY USING OUR INFLUENCE NOW TO CIRCUMSCRIBE THE SECOND WINDOW, WE WOULD BE MAKING IT MORE DIFFICULT FOR THE G-77 TO RENEGOTIATE ITS SCOPE IN THE YEARS AHEAD, ONCE THEY GET IT ESTABLISHED.

16. THE JUDGMENT THAT MUST BE MADE -- AND SOON -- IS WHETHER AN OUTCOME ALONG THE FOREGOING LINES IS PREFERABLE

TO A FAILURE IN THE NORTH/SOUTH DIALOGUE (OPTION 1) AND, IF SO, THE MINIMUM PRICE WE JUDGE IT WILL COST US. HAVING DONE THIS CALCULUS, WE MAY DECIDE THAT THERE IS SUFFICIENT VALUE IN SO CIRCUMSCRIBING THE ACTIVITIES OF THE SECOND WINDOW THAT THE ECONOMIC COSTS OF AN INITIAL AND ONE-TIME CONTRIBUTION FOR START-UP WOULD WELL BE WORTH THE POLITICAL LEVERAGE THAT IT WOULD GIVE US.

17. WHETHER WE CHOOSE THIS OPTION DEPENDS, TO SOME EXTENT WE THINK, ON THE IMAGE WE WANT TO CONVEY WITH RESPECT TO U.S. SUPPORT FOR THE DEVELOPING WORLD AND A JUDGMENT CONCERNING HOW OUR RELATIONS WITH THE G-77 WILL STAND AS WE COME TO UNCTAD V. IF, AS NOW SEEMS LIKELY, THERE WILL BE LITTLE ADVANTAGE TO THE DEVELOPING WORLD IN THE FINAL RESULTS OF THE MTN, ESPECIALLY WHEN ONE TAKES INTO ACCOUNT THE OUTCOME OF THE TEXTILE NEGOTIATIONS, THE IMPOSITION OF AN ORDERLY MARKETING ARRANGEMENT ON SHOES AND THE INCREASE IN PROTECTIONIST PRESSURES WHICH THE DEVELOPING WORLD PERCEIVES AS BEING LARGELY DIRECTED TOWARD ITSELF, WE WILL PROBABLY FIND OURSELVES UNDER PRESSURE AT UNCTAD V ON SEVERAL SCORES. THIS WOULD BE FURTHER EXACERBATED IF, IN
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USEEC USOEC

STATE FOR UNDERSECY COOPER AND ASST SECY KATZ AND MAYNES
FROM AMB VANDEN HEUVEL; NSC FOR BRZEZINSKI, OWENS AND ERB

THE MEANTIME, OUR AID PERFORMANCE HAS FAILED TO CORRESPOND
TO OUR RHETORIC. ON THE ASSUMPTION THAT WE MAY BE UNDER
PRESSURE ON ALL THESE SCORES, WE SHOULD CONSIDER THE ADVAN-
TAGE TO US IN THESE CIRCUMSTANCES OF HAVING BEEN MORE
FORTHCOMING ON THE CF, ESPECIALLY IF IN DOING SO WE WERE
ALSO TO MAKE SURE THAT OUR ESSENTIAL INTERESTS WERE BEING
PROTECTED.

18. FINALLY, IN MAKING THESE JUDGMENTS, WE SHOULD FACTOR IN
THE LEVERAGE (OR REVERSE LEVERAGE) THAT A SUCCESSFUL CON-
CLUSION TO THE COMMON FUND NEGOTIATIONS WOULD GIVE US WITH
THE EASTERN BLOC COUNTRIES IN TERMS OF THEIR CONTRIBUTION TO
THE DEVELOPMENT PROCESS OF THE THIRD WORLD. TO WHAT EXTENT
WILL THEY BENEFIT OR CONTRIBUTE TO ICAS WHERE WE BELIEVE
STABILIZATION ARRANGEMENTS CAN BE NEGOTIATED? TO WHAT
EXTENT MIGHT THEY BENEFIT FROM OTHER MEASURES FOR COMMODI-
TIES WHERE BUFFER STOCK ARRANGEMENTS ARE NOT POSSIBLE AND TO
WHAT EXTENT MIGHT THEY BE EXPECTED TO CONTRIBUTE TO SUCH
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OTHER MEASURES? WHAT WOULD BE THE BALANCE OF BENEFITS?

19. ASSUMING THAT THE BALANCE OF THE FOREGOING CALCULATIONS
IS IN OUR FAVOR, IT WOULD SEEM IMPERATIVE TO BEGIN IMMEDI-
ATELY TO CREATE THE CONDITIONS THAT WOULD ENABLE US TO
PRESENT OURSELVES, NOT AS RELUCTANT PARTNERS, BUT AS ACTIVE
AND CREATIVE PARTICIPANTS IN THE OUTCOME. THIS IS THE
SUBJECT OF THE FINAL SECTION OF THIS MESSAGE WHICH DEALS
WITH THE TACTICAL SITUATION.

20. TACTICS: THE U.S. IS APPROACHING AN IMPORTANT POINT IN
ITS ECONOMIC AND POLITICAL RELATIONS WITH THE DEVELOPING
WORLD. IN OUTLINING THE OPTIONS THAT SHOULD BE CONSIDERED,
THERE IS NEED FOR BASIC INFORMATION THAT IS RELEVANT TO THE
CHOICE. THIS HAS TO DO WITH THE IMPORTANCE WHICH EACH THIRD
WORLD COUNTRY ITSELF ATTACHES TO THE OUTCOME OF THE COM-
MODITY AND COMMON FUND NEGOTIATIONS. THE U.S. SHOULD HAVE
THIS INFORMATION BEFORE THE FINAL SUBSTANTIVE DECISIONS ARE
MADE.

21. FOR EXAMPLE, BRAZIL HAS BEEN REPORTED AS SUPPORTING THE
CF WITHIN THE G-77 BUT, IN TERMS OF ITS OWN PARTICULAR
INTEREST -- COFFEE -- BEING UNENTHUSIASTIC ABOUT IT. INDIA
HAS BEEN REPORTED AS DISINTERESTED IN THE BASIC BUFFER STOCK
FEATURE OF THE CF, BUT VERY INTERESTED IN THE POSSIBILITIES
OF FINANCING DEVELOPMENT AND DIVERSIFICATION PROJECTS

THROUGH THE SECOND WINDOW. THE INTERESTS OF OTHERS ARE SIMILARLY DIVERSE. OUR IMPRESSION IS THAT G-77 AMBASSADORS SOMETIMES ACT ON THE BASIS OF A BLOC DYNAMIC RATHER THAN THE ECONOMIC INTERESTS OF THEIR INDIVIDUAL COUNTRIES. OUR TASK SHOULD BE TO GAUGE THE IMPORTANCE TO THE US OF INDIVIDUAL COUNTRY INTERESTS AND THE EFFECT OF THESE INTERESTS ON OUR BILATERAL RELATIONSHIPS IN COMPARISON TO THE BLOC DYNAMIC. CONFIDENTIAL

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22. ONE IMPORTANT STEP WOULD BE TO ASK OUR AMBASSADORS IN SELECT G-77 COUNTRIES TO APPROACH APPROPRIATE OFFICIALS IN THEIR CAPITALS TO MAKE IT CLEAR THAT THE U.S. IS EVALUATING THE CF IN RESPONSE TO G-77 EXPRESSIONS OF CONCERN, AND THAT IN THIS EVALUATION AN IMPORTANT FACTOR WILL BE THE IMPORTANCE OF THE CF TO THE INDIVIDUAL COUNTRY ITSELF. OUR PURPOSE SHOULD BE TO SEEK AS EXPLICIT A STATEMENT AS POSSIBLE (PERHAPS REQUESTING A DIPLOMATIC NOTE SO THAT IT IS THE OFFICIAL RESPONSE OF THE GOVERNMENT ITSELF) REGARDING EACH INDIVIDUAL COUNTRY'S SPECIFIC INTERESTS IN THE CF, ITS ANALYSIS OF THE ECONOMIC BENEFITS THAT WOULD BE DERIVED BY IT FROM THE ORGANIZATION AND FUNCTIONING OF THE CF, AN INDICATION OF THE COMMODITIES IN WHICH IT WOULD BE INTERESTED IN PARTICIPATING IN THE ICA'S, AND AN APPROACH BY OUR REPRESENTATIVE OF THE DEGREE OF POLITICAL SUPPORT AVAILABLE WITHIN EACH INDIVIDUAL GOVERNMENT FOR THE G-77 APPROACH.

23. IT MIGHT BE THAT, AFTER CONDUCTING SUCH A POLL OF INDIVIDUAL COUNTRY ATTITUDES, WE WOULD CONCLUDE THAT THE EFFECTS ON OUR BILATERAL RELATIONS OF A STALEMATE IN THE CF TALKS WOULD BE MINIMAL, EVEN THOUGH WE MIGHT APPEAR TO BE TAKING SOME PRESSURE IN INTERNATIONAL FORA. ON THE OTHER HAND, WE COULD WELL FIND FROM THE SURVEY THAT A SUFFICIENT NUMBER OF IMPORTANT G-77 CAPITALS ATTACH SUCH SIGNIFICANT AND WELL-REASONED IMPORTANCE TO THE COMMON FUND THAT IT WOULD NOT BE IN OUR INTEREST TO STAND ALONE. IN ANY CASE SUCH A COUNTRY-BY-COUNTRY ASSESSMENT CAN ONLY BE HELPFUL IN MAKING THE DIFFICULT DECISIONS THAT SHOULD BE MADE BY MID-JUNE.

24. THE TACTICAL ADVANTAGE THAT WE SEE IN SUCH A SURVEY IS THAT, WHATEVER THE OUTCOME OF THE CF NEGOTIATIONS, WE COULD BETTER DEFEND AND MAXIMIZE OUR POSITION. IF WE DECIDE ON OPTION ONE, WE COULD AT LEAST CLAIM THAT WE MADE AN EFFORT TO EVALUATE THE COSTS AND BENEFITS TO INDIVIDUAL COUNTRIES, CONFIDENTIAL

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C O N F I D E N T I A L SECTION 06 OF 07 GENEVA 07217

USEEC USOECD

STATE FOR UNDERSECY COOPER AND ASST SECY KATZ AND MAYNES FROM
AMB VANDEN HEUVEL; NSC FOR VRZEZINSKI, OWENS AND ERB

THAT WE FOUND THE CF TO BE AN INADEQUATE ANSWER TO THE REAL
NEEDS OF THE DEVELOPING WORLD AS DETERMINED BY THEIR INDIVI-
DUAL REPLIES AND THAT OUR FINAL DECISION WAS, THEREFORE,
TAKEN WITH THE INTERESTS OF INDIVIDUAL COUNTRIES FULLY IN
MIND. THE INESTIMABLE ADVANTAGE OF HAVING RAISED THE QUES-
TION IN CAPITALS IF WE CHOOSE OPTION 3 IS THAT WE WOULD HAVE
REGAINED THE INITIATIVE AND SOME OF THE POLITICAL CREDIT
FROM THOSE OF OUR GROUP B PARTNERS WHO HAVE MANEUVERED TO
OUTFLANK US ON THIS ISSUE.

25. WE BELIEVE THAT THE EC-9 HAS ALREADY CONCLUDED THAT IT
HAS NO CHOICE BUT TO ACCEPT A MODIFIED CF. WITH RE-NEGOTI-
ATION OF THE LOME CONVENTION UNDERWAY AND DUE TO BE COM-
PLETED BY MARCH 1980, THE EC-9 HAVE VERY MUCH IN MIND THE
ECONOMIC INTERDEPENDENCE THAT LINKS THEM TO THE DEVELOPING
WORLD AND THE LONG-TERM ECONOMIC ADVANTAGE OF STRENGTHENING
THEIR MARKETS IN THESE COUNTRIES WHILE AT THE SAME TIME
SECURING THEIR ACCESS TO RAW MATERIALS. THIS IS WHY THEY
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ARE WILLING, IF NECESSARY, TO ISOLATE THE U.S.

26. FROM THE POINT OF VIEW OF MULTILATERAL RELATIONSHIPS, A STRONG ARGUMENT CAN BE MADE THAT THE UNITED STATES SHOULD ULTIMATELY COME TO TERMS AS WELL. THE G-77 IS A POLITICAL FACT, AND AN OVERLY HARD LINE POSITION WILL ONLY RESULT IN MORE COHESIVENESS AS RADICALS MOVE TO THE FORE AND INTERNAL DIFFERENCES ARE SMOOTHED OVER. A STAND-FAST POSITION WILL PROBABLY CAUSE THE COMMON FUND ISSUE TO BE KICKED UP TO THE OVERVIEW COMMITTEE OF THE WHOLE IN NEW YORK AND EVENTUALLY BE MADE AN ISSUE AT BOTH UNCTAD V AND THE 1980 SPECIAL SESSION OF UNGA ON DEVELOPMENT. QUITE ASIDE FROM THE DESIRABILITY OF AVOIDING ISOLATION ON THIS ISSUE, WE WOULD UNDOUBTEDLY FIND OURSELVES GOING INTO UNCTAD V FACING A MUCH MORE POLITICALLY UNIFIED G-77 THAN WILL BE THE CASE IF WE PLAY A MORE CONSTRUCTIVE ROLE. MOREOVER, IT WILL BE ASSERTED THAT A STAND-FAST POSITION IS NOT CONSISTENT WITH THE SPIRIT THAT PRESIDENT CARTER IS TRYING TO CONVEY IN OUR RELATIONS WITH THE DEVELOPING WORLD.

27. THE COUNTRY-BY-COUNTRY ASSESSMENT IS BASIC TO THE FINAL DECISION BY WASHINGTON. THE TACTICAL ADVANTAGE THAT WE SEE IN SUCH A SURVEY IS THAT, WHATEVER THE OUTCOME OF THE CF NEGOTIATIONS, WE COULD BETTER DEFEND AND MAXIMIZE OUR POSITION. IF WE DECIDE ON OPTION ONE, WE COULD AT LEAST CLAIM THAT WE MADE AN EFFORT TO EVALUATE THE COSTS AND BENEFITS TO INDIVIDUAL COUNTRIES, THAT WE FOUND THE CF TO BE AN INADEQUATE ANSWER TO THE REAL NEEDS OF THE DEVELOPING WORLD AS DETERMINED BY THEIR INDIVIDUAL REPLIES AND THAT OUR FINAL DECISION WAS, THEREFORE, TAKEN WITH THE INTERESTS OF INDIVIDUAL COUNTRIES IN MIND. THE INESTIMABLE ADVANTAGE OF HAVING RAISED THE QUESTION IN CAPITALS IF WE CHOOSE OPTION 3 IS THAT WE WOULD HAVE REGAINED THE INITIATIVE AND SOME OF CONFIDENTIAL

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THE POLITICAL CREDIT FROM THOSE OF OUR GROUP B PARTNERS WHO HAVE MANEUVERED TO OUTFLANK US ON THIS ISSUE.

28. LOOKING AT THE ISSUE FROM A LIMITED GENEVA VANTAGE POINT, AND IN THE LIGHT OF OUR UN MULTILATERAL RESPONSIBILITIES, WE WOULD RECOMMEND OPTION 3--SEIZING THE POLITICAL INITIATIVE, DEFINING A CF THAT THE US THINKS WILL WORK, AND LEADING THE EFFORT TO FIND THE FINAL COMPROMISE IN TIME FOR UNCTAD V. THE U.S. POSITION ON POOLING AND FINANCING BUFFER STOCKS HAS ESSENTIALLY BEEN ACCEPTED. THE SECOND WINDOW HAD POLITICS AS ITS MIDWIFE BUT NEVERTHELESS CAN BE JUSTIFIED IN TERMS OF OUR INTERESTS. IT AFFORDS AN OPPORTUNITY FOR UNIVERSAL MEMBERSHIP WITH A MODEST ENTRANCE FEE, THEREBY

PRESSURING THE COMMUNIST COUNTRIES TO PARTICIPATE. IT IS VERY DIFFICULT FOR THE U.S. TO REJECT THE POSSIBILITY OF "VOLUNTARY CONTRIBUTIONS" FOR "OTHER MEASURES" IF COUNTRIES WANT TO MAKE SUCH CONTRIBUTIONS. BUT EVEN MORE, IT IS ALTOGETHER POSSIBLE THAT THE SECOND WINDOW, IF PROPERLY SEPARATED FROM THE BUFFER STOCK RESPONSIBILITY, AND IF PROPERLY AND CREATIVELY ADMINISTERED, COULD PLAY AN IMPORTANT, CATALYTIC ROLE IN COORDINATING THE FINANCING OF "OTHER MEASURES" BY A COMBINATION OF PRESSURING THE IFIS, VOLUNTARY CONTRIBUTIONS, UNDP AND ICA FINANCING. ALTHOUGH WE MAY INSIST ON A TRACK RECORD BEFORE CONTRIBUTING OURSELVES, OUR AFFIRMATIVE PARTICIPATION MAY HELP CONSTRUCT THE KIND OF "OTHER MEASURES" THAT OUR NATIONAL INTEREST WOULD WANT TO PROMOTE.

29. OUR ASSESSMENT OF THE GENEVA DISCUSSIONS IS THAT THE ELEMENTS FOR A CF CONSISTENT WITH US INTERESTS ARE PRESENTLY AVAILABLE, THAT THE DEPARTURE OF AMBASSADOR ALATAS AND THE UNAVAILABILITY HERE OF A COMPARABLE G-77 SPOKESMAN FOR THE CF GIVES US AN OPPORTUNITY TO TAKE AN AUTHORITATIVE INITI-

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INFO OCT-01 EUR-12 IO-13 ISO-00 EB-08 NSCE-00 SSO-00
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C O N F I D E N T I A L SECTION 07 OF 07 GENEVA 07217

USEEC USOECD

STATE FOR UNDERSECY COOPER AND ASST SECY KATZ AND MAYNES
FROM AMB VANDEN HEUVEL; NSC FOR BRZEZINSKI, OWENS AND ERB

ATIVE, THAT A SUCCESSFUL UNCTAD V DEPENDS ON A CF AGREEMENT,
AND THAT FOR A MODEST COST WE CAN GAIN AN IMPORTANT POLI-
TICAL AND ECONOMIC RELATIONSHIP WITH G-77 COUNTRIES. WE
WOULD RECOMMEND THE FOLLOWING SCENARIO:

(A) PARTICIPATE IN THE INFORMAL MAY 18-19 MEETINGS IN GENEVA WITHOUT MAKING ANY COMMITMENTS BUT LETTING THE G-77 KNOW THAT WE WANT TO BE FORTHCOMING IF, IN FACT, COUNTRIES OF THE G-77 ASSIGN A MAJOR PRIORITY TO THE CF.

(B) IN THE MEANTIME, CONDUCT THE COUNTRY BY COUNTRY SURVEY AT THE HIGHEST LEVELS, TO BE COMPLETED IN THE FIRST WEEK OF JUNE.

(C) ASSUMING THAT THE SURVEY SUSTAINS OUR VIEWS, DECIDE THE MAXIMUM POSITION ON THE CF THAT WE CAN ACCOMMODATE IN ACCORD WITH THE AFFIRMATIVE ATTITUDE THE U.S. WANTS TO REFLECT. NEGOTIATE THE ACCEPTANCE OF THIS POSITION AT THE HIGHEST LEVEL WITH GROUP B. ONCE THE GROUP B POSITION HAS BEEN AGREED TO WITH FINALITY, URGE THE RE-OPENING OF NEGOTIATIONS
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WITH G-77 THROUGH THE UNCTAD SECRETARIAT. ARRANGE WORKING GROUPS, AGENDAS AND TIMETABLES SO THAT THE FINAL DECISIONS CAN BE ANNOUNCED AT UNCTAD V, AND THEN FOLLOW UP WITH AFFIRMATIVE SUPPORT SO THAT THE CF CAN BE SUCCESSFUL EVEN THOUGH LIMITED IN SCOPE. VANDEN HEUVEL

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